



HM Government

UK POSITION PAPER ON THE FUTURE OF COHESION POLICY

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As the European Commission and European Union (EU) Member States begin discussions to develop the next set of Cohesion Policy programmes, this paper sets out the UK Government's position on the important considerations for future programmes, and reflects on the lessons learnt from implementing past and present programmes.

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UK Position Paper on the Future of Cohesion Policy

1. As the United Kingdom Prime Minister has said, although we are leaving the European Union, the United Kingdom wants the European Union to succeed and prosper. There are a number of lessons to learn from current and previous Cohesion Policy programmes and from the experiences of other Member States. Reflecting on these lessons provides an important opportunity to improve the programmes for the future.
2. Cohesion Policy has a crucial role to play in the European Union's future prosperity by improving the competitiveness of regions and exploiting the potential for growth; by incentivising innovation; and by addressing the challenges that arise from globalisation. The United Kingdom has implemented Cohesion Policy programmes for over forty years, and we hope that our reflections on their implementation to date can help ensure a successful Cohesion Policy post-2020.¹

Seventh Cohesion Report

Innovation and Focus on Results

3. The focus on results in the performance framework in the 2014-20 programmes has been widely welcomed across the United Kingdom. It can provide projects with greater discipline and a focus on the long-term contribution they make in local communities. It is essential, however, that this approach incentivises innovation and action to tackle the hardest problems in the most difficult to reach places. For the United Kingdom, this involves addressing the productivity disparities between regions and the need for further support for Small-to-Medium Enterprise (SME) innovation and skills investment. The focus on results should not encourage short-termism, focused solely on inputs (spending money) and outputs (delivering numbers, such as miles of road or jobs created), important though these measures are.
4. The Seventh Cohesion Report also acknowledges that the link between Cohesion Policy and European Union economic governance may need to be strengthened to underpin reforms for a supportive growth environment. The United Kingdom is in favour of this approach. The historically low levels of public investment in the European Union can be rectified, and Cohesion Policy has a role to play in encouraging conditions for investment.
5. A commitment to evaluate the impact of results and the processes that enable successful implementation is important, in order to ensure the efficient and effective use of public funding. The United Kingdom supports this and the use of methodologies that provide robust evaluations and evidence of impact, and better and more rapid translation of findings into future Cohesion Policy.

¹ Responsibility for the implementation of the UK's EU Structural Fund programmes lies with UK Government departments, the Devolved Administrations, and the Government of Gibraltar.

Regional Challenges

6. In the United Kingdom, Cohesion Policy has facilitated the creation of business centres and support of SMEs at local level. However, as the report notes, challenges remain. Growth has not been even across our four nations. We believe in United Kingdom-wide progress – in helping every part of our country share in prosperity and opportunity. The United Kingdom has all three categories of region², exemplifying the differences within the UK. Prospects for people and businesses vary too much. We have world-class businesses and sectors, but some are not yet achieving their full potential.
7. As evidenced in the Seventh Cohesion Report, GDP per head in the less developed regions is converging towards the European Union average through both faster productivity growth and increased employment. However, in the United Kingdom, more can be done. Working more productively needs higher skills, more investment, and businesses across the country raising their performance. As we leave the European Union, we will look to address these challenges through our Industrial Strategy which will support innovation and help businesses to create better, high paying jobs with investment in skills, industries and infrastructure of the future. In developing our Industrial Strategy, there are key lessons to be learnt from how Cohesion Policy has addressed these differences, and we will continue to watch developments in Europe with interest.
8. The challenges we face in the United Kingdom include a need for higher investments in Research & Development by both the public and private sectors, maintaining standards in innovation collaboration, and building research and innovation excellence to capitalise on existing strengths and foster local ecosystems. As part of the Industrial Strategy, the United Kingdom has committed to increasing investment in Research and Development to 2.4 per cent of GDP by 2027 and to reach 3 per cent of GDP in the longer term. This investment will help to drive living standards, productivity and growth.
9. These challenges that the United Kingdom seeks to address extend across the European Union, and Cohesion Policy has an important role to play in tackling them. As evidenced in the Seventh Cohesion Report, although performance for innovation increased for some countries, including the United Kingdom, regional variations continue to be wide, and risk factors from globalisation remain. Cohesion Policy can help to improve the competitiveness of less developed regions and other regions with unrealised potential.
10. Credible long-term strategies to help local economies are crucial to territorial cohesion. For example, Local Industrial Strategies in England will mirror smart specialisation strategies, in promoting more efficient and synergetic use of public funds. Smart specialisation strategies have significant added value for the United Kingdom's outward-looking and place-based approach. Based on rigorous analysis,

²NUTS2 Regions in the European Union are classified into one of three categories of region: More Developed; Transition; and Less Developed. These are based on the GDP per capita of the EU-27 average.

they identify local strengths, future opportunities and the action needed in each area to boost productivity and competitiveness.

11. There are parallels with many other Member States, in that it is increasingly important to address and consider local and regional disparities. Partnership and collaboration is central to addressing these concerns and to producing long term results. The devolved context in the UK, with distinctive approaches for economic development and smart specialisation, also provides an opportunity to learn from differentiated approaches.

Simplification and Harmonisation

12. The United Kingdom has welcomed the efforts of the Commission to harmonise rules between different funds. More flexible and closely harmonised funding rules could lead to stronger links between Cohesion Policy and innovation or infrastructure funding.
13. Our experience of implementing Cohesion Policy programmes is that associated bureaucracy and lengthy administrative processes can reduce their impact. Recent efforts to reduce administrative burdens and simplify the regulations have been welcomed by public authorities and beneficiaries, but more work is required. The introduction of more checks and procedures should be replaced where sensible with national procedures. The burden of audit can be reduced without increasing the risk of fraud by creating a balance between national and European Union controls.

Financial Instruments

14. Financial Instruments have proven to be an important mechanism for economic development in the United Kingdom since 2000. They enable the recycling of public funds in the long-term by the generation of legacy funds from loans and investments to SMEs, rather than the use of grants. However, the regulations and guidance on their use should not stifle their potential to lever in investment and expertise from the private sector.
15. The European Union guidance and regulations on the European Regional Development Fund and Financial Instruments are considered to be complex and burdensome. They should be reviewed, retaining only essential and core features, allowing for more flexible and tailor-made funding approaches depending on the place and type of fund. They should maintain a focus on evidence of need, with financial instruments only used where there is clear evidence they are appropriate and offer value for money through economies of scale, such as a fund of funds approach.³ This could be achieved through further development of the ex-ante assessment process, and the retention of tranche payments to funds – a requirement introduced in the 2014-20 programme to stimulate investment performance.

Proportionality and Co-Financing

³ Examples of this include the Northern Powerhouse Investment Fund, the Midlands Engine Investment Fund, and the Development Bank of Wales.

16. The broader application of proportionality and the principle of co-financing is important and we have witnessed the value it has added within the United Kingdom. It encourages higher quality projects and ensures there is sufficient local support and need for particular projects, and also allows more individual projects to be funded. It ensures that European Union funding has a multiplier effect and can support a wider range of projects. It also encourages strong national and local ownership. This means that activities are better embedded into local economies and the public and private sector, and local communities can prioritise activities, based on objective criteria and positive incentives for programmes.

Ex-Ante Conditionalities

17. While it is perhaps too early to know the full added value of ex ante conditionalities, the Seventh Cohesion Report provides an encouraging picture of what has already been achieved. The report provides rich evidence that they have provided a significant incentive for reform and have helped to overcome differences in administrative capacity, leading to the more efficient and effective implementation of programmes. However improvements can be made and lessons learned for the future.

18. In the United Kingdom, our experience is that ex ante conditionalities have often added to the complexity of negotiating and implementing operational programmes, and placed demands which have found to be disproportionate relative to their needs and capacity. The burden of proof for failure to successfully implement directives should be on the Commission not the Member State. In the future, ex ante conditionalities could be more focused and flexible, taking into account regional and local contexts. This would, in turn, help to strengthen local ownership of new systems and reforms, which is vital to positive and lasting change.

European Territorial Cooperation

19. The United Kingdom recognises the importance of European Territorial Cooperation programmes for cooperation across the European Union. European Territorial Cooperation programmes are drivers for territorial cohesion and reducing disparities between regions.

20. As the Prime Minister set out in her Florence speech, we want to continue working together in ways that promote the long-term economic development of our continent. This includes continuing to take part in those specific policies and programmes which are greatly to the United Kingdom and the European Union's joint advantage, such as those that promote science, education and culture – and those that promote our mutual security. We will take decisions on participation in future programmes in due course, as the proposals are developed.

21. In particular, the PEACE programme has played a significant role in advancing cohesion between communities and promoting economic and social stability in Northern Ireland. That is why the United Kingdom government has been clear that we will honour our commitments to the PEACE and Interreg VA programmes under the current multiannual financial framework and to examine possibilities for future support favourably. This reflects the unique nature of the PEACE programme in

promoting peace and cohesion in Northern Ireland and the border counties of Ireland.

22. Without prejudice to the outcome of the negotiations on this specific issue, the United Kingdom will remain committed to peace and reconciliation programmes and to sustaining cross-border cooperation. Future participation in programmes which are of mutual interest is part of this commitment.

Conclusion

23. We look forward to a deep and special partnership with the European Union. Although we are leaving the European Union – and in that regard we will become separate – we are all still European and will stay linked by the many ties and values we have in common. A dynamic, secure and prosperous European Union is in all of our interests. We want to build a new partnership that lasts and we are ambitious about what can be achieved.

